

AUSTIN ENERGY'S TARIFF PACKAGE: §
UPDATE OF THE 2009 COST OF § BEFORE THE CITY OF AUSTIN
SERVICE STUDY AND PROPOSAL TO § IMPARTIAL HEARING EXAMINER
CHANGE BASE ELECTRIC RATES §

CLOSING BRIEF OF PUBLIC CITIZEN AND SIERRA CLUB

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TO THE HONORABLE INDEPENDENT HEARING EXAMINER:

Public Citizen and Sierra Club submit this Closing Brief and respectfully show the following:

I. INTRODUCTION

Public Citizen and Sierra Club entered this rate case to advocate for positions designed to help Austin Energy, the utility owned by the people of Austin, chart a sustainable, affordable course for the future. Our proposals will help Austin Energy retire its oldest natural gas and coal-fired power plants, reduce emissions, improve affordability, and spur innovation and new technologies. And they reflect the values of the Austin community. Our proposals make economic sense, provide price stability, improve fairness and equity, and will protect public health. While we continue to stand by the fundamental positions we took in our statement of issues and cross-rebuttal statements, we have slightly modified some positions, based on information we we learned through the course of the rate case.

The issues that we will focus on in this closing brief include the following:

- Revenue requirements to recover the costs to decommission and pay off the debts associated with our oldest fossil fuel plants;
- Allocation of the production costs for generation resources owned by Austin Energy;
- Cost allocation related to the Energy Efficiency Services (EES) Fee, including the proposed expansion into high-load transmission and primary voltage customers;
- Residential rate design, including:

- Seasonal Power Supply Adjustment vs. Seasonal Base Rates
 - Customer charges,
 - Tiered Energy Rates
 - Outside City Residential Rate Design
- Load Voltage Discount Rider, as well as other Storage and Demand Response Riders and Tariffs
- Value of Solar Issues, including expansion of the Value of Solar tariff to commercial customers and establishment of a Community Value of Solar tariff; and
- Other policy issues, including Pilot Programs.

The IHE and City Council should not discount the testimony of our expert witness, Paul Chernick. Mr. Chernick stated that he had reviewed and supported our positions on the matters on which he was testifying.¹ He also testified that, although he had not done certain studies for this case, he had reviewed other studies that are relevant to the issues we raised,² and that he was basing his opinions on other information that he either researched or was aware of from other cases.³

On cross examination, Mr. Chernick was asked if studies had actually been conducted, and his answer was yes, he did studies.⁴ However, on redirect he was not allowed to explain or describe those studies for the most part.⁵ We believe that his testimony was improperly limited. It was clearly within the scope of cross examination, and witnesses are allowed to explain previous answers. If Austin Energy did not want to hear about the studies he has done or is aware of, they should not have asked the questions.

Re-direct is intended to permit the witness to **explain answers** given on **cross-examination** and to amplify new material elicited for the first time. The intent is to prevent the jury from being left with a false and incomplete picture created by the latitude counsel is afforded on **cross-examination** and counsel's ability to use leading questions. It is

¹ Tr. Vol. 3, p. 728, ll. 3-8.

² Tr. Vol. 3, p. 728, ll. 9-12.

³ Tr. Vol. 3, p. 735, ll. 18-24.

⁴ Tr. Vol 3, p. 716, l.17.

⁵ Tr. Vol. 3, p. 728, l. 13 – p.729, l. 25.

sometimes said that re-direct **examination** for this purpose is a matter of right.⁶

As a result, Public Citizen and Sierra Club were harmed in their ability to present their case. We should not be further harmed by any discounting of Mr. Chernick's testimony.

II. REVENUE REQUIREMENT

A. Residential Base Revenue Customer Assistance Program Adjustment

Public Citizen and Sierra Club did not take a position on this issue.

B. Decommissioning Funding

Public Citizen and Sierra Club support Austin Energy's proposal to fund a non-nuclear decommissioning reserve for the eventual retirement of Decker, FPP, and Sandhill. We also agree with the stated rationale for the proposal, the cost causation principal, *i.e.*, recovering costs from those ratepayers that benefit from those generating assets.⁷

As a matter of public policy, Austin Energy and City Council must deal with its generation fleet and the reality that at some point these units will retire. While it would have been preferable had Austin Energy begun collecting revenues that could be used for the decommissioning of our power plants from the moment they began operation, unfortunately it is better to address the issue now than continue to wait.

We support allowing AE to recover decommissioning costs of its power plants. We also support the amounts that Austin Energy has proposed to allocated to the Non-Nuclear Decommissioning Fund for decommissioning of the Decker Creek Power Station, the Fayette Power Project and the Sand Hill Energy Center. Decker and Fayette already have target

⁶ *Sims v. Brackett*, 885 S.W.2d 450, 455 (Tex.App.-Corpus Christi 1994, writ denied) (emphasis added).

⁷ AE Ex. 2 at 17, Rebuttal Testimony of Mark Dombroski.

retirement dates specified, and though these retirement dates may change slightly, it is clear that they will retire sooner rather than later.

C. Internally Generated Funds for Construction

Public Citizen and Sierra Club did not take a position on this issue.

D. Transmission Costs and Revenues

Public Citizen and Sierra Club did not take a position on this issue.

E. FPP Debt Defeasement

Austin Energy's revenue requirement should include annual budget allocations to a Fayette Debt Defeasement Fund that equal one sixth the total amount the utility would need to defease all remaining debt associated with the Fayette Power Project in November 2022. This is necessary to facilitate retirement of Austin Energy's portion of Fayette in 2023.

The City Council, as the Board of Directors of Austin Energy, approved the Austin Energy Resource, Generation and Climate Protection Plan to 2025 in December, 2014 (2025 AE Plan).⁸ The Plan includes a commitment to retire the Fayette Power Plant by 2023 in five different places. On page 2 it states, "The Plan establishes a process for ending the use of coal by the end of 2022, contingent upon setting aside a fund to pay off the outstanding debt." On page 3 it states, "This Plan adopts and acts immediately on: (2) Supporting creation of a cash reserve fund for Fayette Power Project retirement. Reserves would be approved through the budgeting process and targeted to retire Austin's share of the plant beginning in 2022." On page 5, it states, "Reducing and ending Austin Energy's use of coal is contingent on paying off the debt associated with environmental investments that Austin Energy has made in the plant. The 2025 Generation Plan continues to establish a ramp down in production in 2020 to achieve

⁸ PCSC Ex. 4.

established carbon goals, and anticipates the retirement process in 2022, if funds are available. The recommended Plan will require establishment of a cash reserve retirement account in advance of the retirement to be funded with available cash as part of the annual budgeting process.” On page 7 it states, “Austin Energy will strive to retire its share of the Fayette Power Project as soon as legally, economically and technologically possible.” And the table on page 4, shown as Figure 1, below, shows “retirement of AE’s share of Fayette at the end of 2023.”⁹ That the Plan describes retirement of Fayette five times in its seven pages speaks to the importance of this goal to the city.

FIGURE 1

⁹ PCSC Ex. 4.

The table below shows the projected resource mix and timing of the recommended 2025 Generation Plan.

Year	Coal	Nuclear	Gas	Local Storage	Demand Response	Demand Side Management	Biomass	Solar	Local Solar	Wind	% Renewables
2015	602	436	1,497				112		63.0 ⁵	1041	28%
2016								200 ⁴	13.0 ⁶	754 ⁷	51%
2017				1				150	6.0 ⁶	(91.5) ⁸	54%
2018			(235) ³	1					7.0 ⁶	(34.5) ⁸	53%
2019				1					9.0 ⁶		53%
2020	(235) ¹			1	100 (cumulative)	700 (cumulative)		200 ⁴	12.0 ⁶		57%
2021				1	20				14.0 ⁶		56%
2022				1	20				16.0 ⁶		55%
2023	(367) ²			1	20				18.0 ⁶	(165.6) ⁸	56%
2024				1	20				20.0 ⁶		52%
2025				2	20			200 ⁴	22.0 ⁶		56%
Total Resources	0	436	1262	10	200	700	112	750	200⁹	1503	
Note:											
1) Equivalent MW reduction of AE's share of Fayette to achieve 20% below 2005 CO ₂ levels											
2) Retirement of AE's share of Fayette at the end of 2023											
3) Net of Retirement of Decker Steam Units and addition of 500 MW Combined Cycle											
4) New utility scale solar additions											
5) Existing and new local solar additions											
6) Total local solar additions including community solar											
7) Net of committed wind and new additional wind											
8) Expirations of existing wind contracts											
9) Additional 90 MWs of Local Solar by 2025 contingent upon affordability evaluation											

Despite this clear policy direction from the City Council, Austin Energy has taken no action to establish a cash reserve for future defeasement of Fayette debt.¹⁰ In his rebuttal testimony, Mr. Dombroski states, “it is premature to develop a defeasement fund at this time[.]” in part because, “[t]o date, City Council has not approved a definitive date for closing the FPP.”¹¹ However, on cross-examination, Mr. Dombroski admitted that the goals established

¹⁰ Tr. Vol. 2 at 606: 13-607:1- 2.

¹¹ AE Ex. 2.

in the 2025 AE Plan are more than just suggestions; rather, they are “things we should be working towards and putting our best-faith effort towards.”¹²

Austin Energy estimates that it will still owe approximately \$143.3 million in debt associated with the Fayette Power Project in October of 2022.¹³ As Mr. Dombroski testified, November 2022 is when the remaining debt associated with Fayette will become callable and Austin Energy will have the legal option to defease it.¹⁴ Mr. Dombroski testified that some additional funds beyond the approximately \$143.3 million would be needed for defeasement to account for future interest payments.¹⁵ As Austin Energy did not provide that amount during discovery or at the hearing, we do not have the exact figure. Our initial recommendation of allocating \$31.5 million per year to a debt defeasement fund¹⁶ was based upon Austin Energy’s Response to Public Citizen and Sierra Club’s Second Request for Information, which showed data used to create a graph included in a presentation by Austin Energy to the City Council in December of 2014. That data showed the total amount of debt associated with Fayette that would need to be defeased by 2022 at \$189 million.¹⁷ Our proposal was based on dividing that amount over six years in order to reduce the rate impact as much as possible. Mr. Dombroski agreed that this strategy would reduce the impact on customers.¹⁸ Dividing \$143.3 million over six years results in approximately \$23.9 million per year. Austin Energy will need to provide the additional amount necessary to cover interest to determine the exact amount needed to defease the Fayette debt in November, 2022.

¹² Tr. Vol. 2 at 610: 13-18.

¹³ PCSC Ex. 9.

¹⁴ Tr. Vol. 2, p. 601, l. 7 – p. 602, l. 16.

¹⁵ Tr. Vol. 2, p. 654, l. 12-24.

¹⁶ PCSC Ex. 1, p. 25.

¹⁷ PCSC Ex. 8.

¹⁸ Tr. Vol. 2, p. 610, l. 19-25, p. 611, l. 1-5.

The same logic that Austin Energy uses to explain why decommissioning costs should be treated as an annual operating cost also applies to debt defeasement costs that will be associated with retirement of Austin Energy's portion of Fayette. As Mr. Dombroski states in his rebuttal testimony, "An annual decommissioning cost appropriately assigns the costs to rate payers who benefit from the assets."¹⁹ He goes on to say, "Recovering decommissioning expense as an annual operating cost is consistent with the cost causation theory since those customers who benefit from the production facilities should pay for them. It is also consistent with the matching principle since decommissioning costs are recognized during the same period as production revenues."²⁰ The "Summary of Austin Energy's Reserve Funds" report by NewGen Strategies & Solutions reinforces this rate-making philosophy.²¹ Just as it is appropriate for those customers who benefit from Fayette to pay for decommissioning the plant, they should also be the ones to pay for the debt associated with the plant. Debt defeasement costs for Fayette should be treated the same as decommissioning costs, because they are both directly associated with future retirement of the facility. If the Fayette retirement date were further away, less revenue would be required on an annual basis for the Non-Nuclear Decommissioning Fund because collection could be spread over more years. At the same time Austin Energy is saying that no money should be set aside for Fayette debt defeasement because a retirement date has not been set, it is also arguing that it needs more money for decommissioning Fayette. These two positions are not compatible.

Retiring Fayette without defeasing the debt associated with the plant would likely cause ratepayers to argue that the remaining debt payments should no longer be included in Austin Energy's revenue requirements. As Mr. Dombroski testified, debt associated with an asset

¹⁹AE Ex. 2, p. 13, l. 4-6.

²⁰AE Ex. 2, p. 15, l. 15-19.

²¹ AE Ex. 1, bates 487.

should be collected when that asset is “used and useful” to avoid regulatory challenges.²² Since payments on some of the bonds associated with Fayette are scheduled to continue until after 2040,²³ ratepayers would be paying for an asset decades after it was no longer “used and useful” if Austin Energy doesn’t defease the remaining debt before the retirement process begins in 2022. That would represent a significant intergenerational inequity that can be avoided by collecting money for Fayette debt defeasement now.

Austin Energy should not wait for an agreement with the LCRA before establishing and allocating money to a Fayette Debt Defeasement Fund. In his rebuttal testimony, Mr. Dombroski states, “FPP Units 1 and 2 are jointly owned with the Lower Colorado River Authority (“LCRA”) and operated by the LCRA. Therefore, neither AE, nor the City Council, has the authority to decommission the facility without cooperation from LCRA.” While this is true, Austin Energy has been directed by the Austin City Council to negotiate options for retirement of its portion of Fayette with the LCRA. The 2025 AE Plan states, “While Austin Energy should continue to talk with LCRA about retiring Units 1 and 2 as soon as economically and technologically feasible, Austin Energy will explore negotiation with LCRA for control of one unit to chart a path toward an early retirement of Austin Energy’s share of Fayette starting in 2022.”²⁴ This is potentially a complex negotiation that will need to address the issues that Mr. Dombroski discusses in his rebuttal testimony²⁵ and will take some time. If Austin Energy waits until negotiations are complete before beginning to save for debt defeasement, either the retirement date will be missed or customers will experience a large rate increase.

²² Tr. Vol. 2, p. 607, l. 15-22.

²³ AELIC Ex. 3, p. 5.

²⁴ PCSC Ex. 4.

²⁵ AE Ex. 2, p. 23, l. 8-19.

The objections raised by the Austin Energy Low Income Customers (AELIC) and Ms. Fox on behalf of NXP and Samsung regarding the affordability of defeasing Fayette debt are both based on inaccurate assumptions. AELIC claims that retirement of Fayette would be “unaffordable” since it could cause rates to rise by 25%. However, the Austin Energy presentation on which she relied was from February 2014, and the analysis in that presentation was based on different assumptions, including a 2017 retirement date for Fayette.²⁶ The 2017 retirement date was never adopted by City Council. Ms. Fox also raises the issue of affordability, but relies on an analysis of Resolution 20140828-157 by Austin Energy. She then discusses the Austin Energy Resource, Generation and Climate Protection Plan to 2025, but fails to acknowledge that the Austin Energy analysis she cites was not an analysis of the affordability of that plan.²⁷ In fact, the plan was adopted after Resolution 20140828-157 because Austin Energy felt that it would be an affordable alternative to that resolution.²⁸

The arguments that Austin Energy²⁹ and AELIC³⁰ make in regard to the various benefits that the Fayette Power Project provides to Austin Energy and its customers are not relevant to establishing a Fayette Debt Defeasement Fund. The Austin City Council heard those arguments and decided to vote for a plan that has Austin Energy’s portion of Fayette retiring in 2023 anyway. AELIC also made the point that ERCOT approval would be needed to retire Fayette. This is true, but AELIC provides no evidence that ERCOT is likely to initiate a Reliability Must Run (RMR) contract for Fayette or why an RMR would be anything but temporary, if one were initiated.³¹

²⁶ AELIC Ex. 3, p. 5.

²⁷ NS Ex. 3, p. 2, l. 7-15.

²⁸ PCSC Ex. 4, p. 1.

²⁹ AE Ex. 3, p. 23, l. 14-15.

³⁰ AELIC Ex. 3, p. 6.

³¹ AELIC Ex. 3, p. 6

While plans can change and there is always some level of uncertainty, the Austin City Council has clearly established its intent to retire Austin Energy's portion of the Fayette Power Project in 2023. Establishing a Fayette Debt Defeasement Fund is essential to implementing that policy and should therefore be acted on immediately, as called for in the 2025 AE Plan. Failing to allocate money for this purpose over the next six years will severely jeopardize the ability of the utility to retire its portion of Fayette without a significant rate increase or leaving future customers to continue paying for Fayette debt long after the plant is retired.

F. Debt Service Associated with South Texas Nuclear Project

Public Citizen and Sierra Club did not take a position on this issue.

G. Uncollectable Expense

Public Citizen and Sierra Club did not take a position on this issue.

H. Economic Development and Community Programs

Public Citizen and Sierra Club did not take a position on this issue.

I. Loss on Disposal

Public Citizen and Sierra Club did not take a position on this issue.

J. Customer Care

Public Citizen and Sierra Club did not take a position on this issue.

K. Rate Case Expense

Public Citizen and Sierra Club did not take a position on this issue.

L. Outside Services

Public Citizen and Sierra Club did not take a position on this issue.

M. Reserves

1. Reserve Funding

Public Citizen and Sierra Club did not take a position on this issue.

2. Policies

Public Citizen and Sierra Club did not take a position on this issue.

N. Property Transfers

Public Citizen and Sierra Club did not take a position on this issue.

III. COST ALLOCATION

A. Functionalization of the 311 Call Center, FERC 920 Administration and General Labor Costs and New Service Connection Fees

Public Citizen and Sierra Club did not take a position on this issue.

B. Classification of Production Costs

Public Citizen and Sierra Club did not take a position on this issue.

C. Allocation of Production Costs

Austin Energy should utilize a production cost allocation that is based upon energy use. It is important that the chosen method reflect that resources are used and result in costs not only to serve peak demand periods, but also to meet energy needs throughout the year. There are several models that would achieve this goal and improve the accuracy and fairness of cost allocation. The Base-Intermediate-Peak (BIP), Probability of Dispatch (POB), or a method based on actual hourly energy use would be appropriate. In an ERCOT wholesale market where generation plants are dispatched based upon the marginal cost of energy at specific times, allocating production costs on an hourly cost model is the most accurate way to allocate costs of generation.³²

In his report to the Electric Utility Commission, Mr. Lazar, Senior Advisory with the Regulatory Assistance Project, suggested an hourly energy use cost allocation energy approach, which utilizes actual generation resource hourly data, plus load data classified by customer class.³³ Information provided by Austin Energy shows that a limited hourly energy analysis could be completed in less than four days.³⁴ Mr. Dreyfus stated that AE staff did not run the

³² PCSC Ex. 31, Attachment p. 8-9.

³³ PCSC Ex. 31, Attachment p. 8-9.

³⁴ PCSC Ex. 31, p. Attachment p. 13-14.

analysis because “In the middle of answering a thousand RFIs for a rate proceeding, I consider four days an enormous time commitment and a lot more than one to two hours.”³⁵ The need to respond to RFIs is an unacceptable reason not to perform a task so critical to fair ratemaking. There is still time for Austin Energy to perform this analysis before the Austin City Council makes a decision on rates and it should be required to do so.

Both the 12-Coincident Peak (12 CP) method utilized by Austin Energy and the 4-Coincident Peak Average and Excess Demand (4 CP/AED) method Samsung and NXP allocate production costs based on energy use among customer classes during just a few hours for the entire year. These methods do not reflect the reality of how generation is dispatched in the ERCOT market. The costs of energy use throughout the year should be accounted for in the cost-allocation method.³⁶ Mr. Chernick explained: “It's my recommendation that the generation cost allocator take into account the costs that are driven by energy demand one way or another. Whether that's using an hourly model or distinguishing between types of generation, using an equivalent peaker approach or -- there are probably a half dozen ways you can approach it, but somehow it's inequitable to assume that the cost of Fayette and South Texas are driven by peak loads.”³⁷

Austin Energy examined three cost-allocation models - the BIP, the 4CP AED and the 12 CP.³⁸ While we would prefer that AE be ordered to run an hourly energy model -- such as the one they stated could be accomplished in four-days, the BIP method used by the Independent Consumer Advocate would also be a fair cost-allocation method.³⁹ Different power plants run

³⁵ Tr. Vol. 3, p. 1080, l. 5-7.

³⁶ PCSC Ex. 31, Attachment p. 8-9.

³⁷ Tr. Vol. 3, p. 701, l. 14-22.

³⁸ Tr. Vol. 3, p. 775, l. 8-11.

³⁹ *See, generally, ICA Exhibit 1.*

differently to serve different needs, making the Base-Intermediate-Peak method a fair way to allocate production costs.

D. Allocation of Distribution Costs

Public Citizen and Sierra Club did not take a position on this issue.

E. Allocation of Customer Service (Uncollectible) Costs

Public Citizen and Sierra Club did not take a position on this issue.

F. Allocation of Energy Efficiency Service Charge

Public Citizen and Sierra Club oppose Austin Energy's proposal to shift a disproportionate amount of the Energy Efficiency Service (EES) fee cost to residential customers. This issue is of extreme importance to us. As we stated in our initial position statement, in December 2014, the Austin City Council approved the 2025 AE Plan,⁴⁰ "which maintained the 800 MW goal for demand reduction by 2020, but also established a 2025 goal of at least 900 MW, and if budgets and technologies allowed, at least 1,000 MW."⁴¹ Furthermore, "[t]he 2025 AE Plan ... set the local solar goal at 200 MW by 2025...."⁴²

Austin Energy has acknowledged that they share these goals, reporting that they have helped to reduce demand by some 441 MWs between 2007 and 2014.⁴³ Since 2012, these programs are supported through a per-kilowatt Customer Benefit Charge called the Energy Efficiency Services (EES) fee, paid by most customers.⁴⁴ Austin Energy has acknowledged that all customers served by Austin Energy benefit from the demand reduction programs funded by the EES fee, even if they do not directly participate in the programs.⁴⁵ As we made clear in our

⁴⁰ PCSC Ex. 4.

⁴¹ PCSC Ex. 1 p. 28.

⁴² *Id.*

⁴³ Tr. Vol. 1, p. 239, l. 7.

⁴⁴ The current tariff is set annually through the City Council budget process.

⁴⁵ Tr. Vol. 1, p. 239, ll. 8-17.

own direct testimony,⁴⁶ Austin Energy acknowledged this fact through its cost of service study, which showed that all customer classes “cost” the program. Thus, for illustrative purposes, both the High Load Factor Primary Voltage customers and the T2 High Load Factor customers were identified as costing the program, \$0.00184 per kilowatt hour in the first case, and \$0.00167 in the second case.⁴⁷ Neither of these customer classes would pay the EES tariff under AE’s proposed rates.

Austin Energy initially chose to base their proposed EES tariff not on any specific cost of service study, but instead, on the concept of a uniform fee for all customer classes with the exception of the high-load primary and transmission customers.⁴⁸ Specifically, Austin Energy stated in its response to Public Citizen/Sierra Club’s 2nd RFI that “Austin Energy has not proposed implementing different Energy Efficiency Service (“EES”) rates to different customer classes during this proceeding. At no time during the current rate process did Austin Energy consider implementing different EES rates to different customer classes. Austin Energy did propose a system-wide EES rate, which was then adjusted based on the voltage that the customer was served; slightly higher for secondary customers. This treatment is similar to the PSA rate.”⁴⁹ Public Citizen and Sierra Club are supportive of a uniform EES fee for all customer classes, with a slight adjustment based on voltage.

High-load primary voltage and transmission customers should also be subject to the EES fee.⁵⁰ Although Austin Energy does not currently charge the EES fee to high-load primary voltage and transmission companies, Austin Energy witness Ms. Kimberly acknowledged that in the past certain industrial level customers of Austin Energy did receive EES incentives and

⁴⁶ PCSC Ex. 1, p. 30, Table 8.

⁴⁷ *Id.*

⁴⁸ AE Ex. 1 at Bates 169.

⁴⁹ PCSC Ex. 14.

⁵⁰ PCSC Ex. 1, p. 30.

rebates.⁵¹ In fact, while Austin Energy and then City Council made the decision to not charge these customers the EES tariff once the “special” contracts ended, as a policy matter there is no reason that such customers should not pay the fee and participate in the programs today. It is simply a policy decision that could and should be made.

While the initial Austin Energy proposal to charge a uniform fee to all customer classes to support the EES and demand reduction program did not receive opposition from any party, this is not the position now being advocated by Austin Energy. Instead, as part of her rebuttal testimony, Ms. Kimberly introduced a completely new proposal to create a two-tier EES tariff.⁵² Under this proposal, one fee—paid by residential consumers only—would charge residential consumers inside and outside the city a proposed tariff of \$0.0047 per kilowatt hour. All other customer classes would pay a rate of \$0.00128 per kilowatt hour (adjusted for voltage)—about one-fourth of the residential rate.⁵³

Notably, Mr. Dombroski acknowledged both in an RFI response and his testimony that despite this mid-course change, “Austin Energy has not updated its class cost of service study to reflect the change in EES cost assignments by customer classes.”⁵⁴ Thus, despite a substantial change from its initial uniform rate to a two-tiered rate proposal where residential customers would pay approximately three times the amount as other classes, Austin Energy performed no specific analysis on the impact on customer classes as part of the overall rate.

Nonetheless, there is a huge impact on customer rates and bills because of this new proposal. Ms. Kimberly acknowledged that the proposed new residential customer tariff is approximately twice the amount of the EES tariff found in Austin Energy’s initial filing, and that

⁵¹ Tr. Vol. 3, p. 963, l. 21.

⁵² AE Ex. 7, Rebuttal Testimony of Deborah Kimberly.

⁵³ *Id.*

⁵⁴ PCSC Ex. 16; Tr. Vol. 2, p. 623, ll. 13-17.

the rate for all other classes is approximately half the amount of the initial tariff.⁵⁵ Furthermore, Mr. Dombroski acknowledged that a significant portion of \$18,300,000 in additional cost to the residential class was the result of the change in the EES tariff proposal.⁵⁶ Similarly, Austin Energy witness Mr. Maenius stated that about half of the \$18 million identified as additional costs to the residential class as part of a new calculation came from the change in the EES fee.⁵⁷

Public Citizen and Sierra Club have done a calculation based on an updated table from our initial filing.⁵⁸ We find that the new EES tariff would raise residential rate impacts by approximately \$9,400,000 while lowering costs for other customers by a similar amount.

Table 1. PC and SC Calculation of Initial and Final EES Tariff Proposal by AE:⁵⁹

Customer Class	Total Electric Use	AE Initial EES Rate	What It would Raise	AE Cross-Rebuttal Proposal	What it would Raise	Difference
Residential	4,205,282,364	0.00246	\$10,344,994.62	\$0.00470	\$19,764,827.11	\$9,419,832.50
S1	253,697,904	0.00246	\$624,096.84	\$0.00128	\$324,733.32	-\$299,363.53
S2	2,675,656,172	0.00246	\$6,582,114.18	\$0.00128	\$3,424,839.90	- \$3,157,274.28
S3	2,602,512,233	0.00246	\$6,402,180.09	\$0.00128	\$3,331,215.66	- \$3,070,964.43
P1	541,975,584	0.0024	\$1,300,741.40	\$0.00125	\$677,469.48	-\$623,271.92
P2	672,977,971	0.0024	\$1,615,147.13	\$0.00125	\$841,222.46	-\$773,924.67
High-Load P2	1,305,420,431	None	\$0.00	None	\$0.00	\$0.00
Transmission	22,982,900	0.00237	\$54,469.47	\$0.00124	\$28,498.80	-\$25,970.68
High-Load Transmission	228,127,372	None	\$0.00	None	\$0.00	\$0.00
			\$26,923,743.74		\$28,392,806.73	\$1,469,062.99

⁵⁵ Tr. Vol. 3, p. 939, ll. 16 and 24.

⁵⁶ Tr. Vol. 2, p. 643, ll. 12-18.

⁵⁷ Tr. Vol. 3, p. 1004, ll. 2-6.

⁵⁸ PCSC Ex. 1.

⁵⁹ Source data came from PCSC Ex. 1 and AE Ex. 7, Rebuttal Testimony of Deborah Kimberly.

What is this new cost basis based upon? Faulty data, acknowledged by Austin Energy. First, Austin Energy stated in its rebuttal testimony and on cross-examination, that their new EES tariff was based upon rebates and incentives over three-years.⁶⁰ Although there appears to be some confusion over which years, with Mr. Maenius first stating it was based on FY 14, FY 15 and FY 16, and then upon FY 13-15,⁶¹ while other information presented in the case seemed to indicate a four-year basis,⁶² what is clear is that Austin Energy interpreted their data in a deliberate way that overstates the cost for residential consumers and understates the cost for commercial customers.

On cross-examination, both Ms. Kimberley and Mr. Maenius stated that the analysis on which they are basing their new EES proposes tariff did not include administrative costs.⁶³ This means the analysis is flawed because the EES tariff pays for administrative costs associated with the EES and demand response programs. As a specific example, Austin Energy's Greenbuilding program provides no rebates or incentives, but does incur substantial administrative costs. While some of these programs benefit residential consumers, others benefit commercial consumers.

Moreover, both Ms. Kimberly and Mr. Maenius acknowledged that they have categorized multi-family programs as residential programs and not as commercial programs. Yet both acknowledged that the rebates and incentives of these programs do not go directly to the residential consumers, but rather to the building owners. As Ms. Kimberley herself stated "the property owner" receives the rebate, not the individual apartment dweller.⁶⁴ Thus, even though the owners of the buildings themselves get the rebate, Austin Energy is making the case that

⁶⁰ AE Ex. 7, Rebuttal Testimony of Deborah Kimberly, p. 16, l. 1-4

⁶¹ Tr. Vol 3, p. 1001, l. 6-12 and Tr. Vol. 3, p. 1012, l. 1.

⁶² AE Response to AELIC 10th RFI, 10-7.

⁶³ Tr. Vol. 3, Page 941, Line 25 and Transcript, Page 977, Line 25.

⁶⁴ Tr. Vol. 3, p. 944, l. 8.

because the efficiency gains benefit the individual units, the entire “cost” of these rebates should be assigned to the residential class.

Categorizing multifamily incentives as residential is not current Austin Energy policy. Both Ms. Kimberly and Mr. Maenius acknowledged that the annual report produced by AE for the Consumer Energy Services (CSE) programs identifies all multi-family programs as commercial programs.⁶⁵ In other words, these programs are categorized as commercial programs, identified in the budget and annual reports as being commercial costs, and credited with specific megawatts of savings that are identified as commercial megawatt savings. There is, in fact, no guarantee that multifamily residents will see lower energy bills from these programs since, in some cases, the building owner pays the energy bill. Thus, the AE proposal is based upon categorizing multifamily programs as residential costs, and conveniently ignores administrative costs.⁶⁶

Public Citizen and Sierra Club did our own analysis based on evidence in the record, and included all administrative costs and assigned all multi-family programs to commercial classes. This analysis demonstrates that the split in the budget is 50 percent residential and 50 percent commercial, not 60 or 65 residential as stated by AE.⁶⁷ While we acknowledge that our analysis is not complete -- it includes two years of partially unaudited data -- it does indicate that AE chose to base cost of service on incomplete data. This data is not reflective of all costs in the programs, incorrectly assigns multifamily programs to residential ratepayers, and is not even based on its initial cost of service, which did not assign such a large amount to the residential

⁶⁵ (PC SC Exhibit 29 and Exhibit 30).Tr. Vol. 3, p. 943, l 19-22.

⁶⁶ Tr. Vol. 3, p. 944, l. 8; Tr. Vol. 3, p. 941, L 25; and Tr. Vol. 3, P. 977, Line 25.

⁶⁷ Tr. Vol. 3, p. 959, ll. 17-18.

customer class. And historically, the EES tariff has raised about half of its revenues from the residential class, meaning the revenues and allocated budgets have been roughly aligned.⁶⁸

Table 2. Calculation of Residential and Commercial Share of FY 2014 and FY 2015 Budgets:⁶⁹

Two-Year Budgets for 2014-2015 By Customer Classes						
	FY 2014	FY 2015	Total , 2-years	% of Total	FY 14	FY 15
Residential Efficiency Programs	\$8,634,967	\$7,292,948	\$15,927,915	23.95%	26.37%	21.60%
Residential Demand Response	\$1,936,083	\$2,038,597	\$3,974,680	5.98%	5.91%	6.04%
Residential Solar	\$6,655,900	\$7,231,070	\$13,886,970	20.88%	20.32%	21.41%
Total Residential	\$17,226,950	\$16,562,615	\$33,789,565	50.80%	52.61%	49.05%
Commercial Efficiency Programs	\$11,566,165	\$14,493,299	\$26,059,464	39.18%	35.32%	42.92%
Commercial Demand Response	\$3,172,437	\$1,050,200	\$4,222,637	6.35%	9.69%	3.11%
Commercial Solar	\$781,936	\$1,663,520	\$2,445,456	3.68%	2.39%	4.93%
Total Commercial Budget	\$15,520,538	\$17,207,019	\$32,727,557	49.20%	47.39%	50.95%
All Programs	\$32,747,488	\$33,769,634	\$66,517,122	100%	100%	100%

Public Citizen and Sierra Club are supportive of a uniform EES tariff assigned to all customer classes, including high-load customers. We urge the IHE and City Council to reject the new EES tariff proposal, which would unfairly charge the residential customers based on faulty data, and without reference to a cost-of-service analysis. Based upon our analysis, this proposal represents a \$9.4 million shift in cost from commercial customers to residential customers. It also assumes that future budgets will be similar to past budgets, which is not a valid assumption. For these reasons, it should be rejected.

IV. REVENUE DISTRIBUTION / ALLOCATION / SPREAD

⁶⁸ PCSC Ex. 15 and Tr. Vol. 3, p. 941, l. 10.

⁶⁹ Source data from PCSC Ex. 29 & Ex. 30.

Public Citizen and Sierra Club did not take a position on this issue.

V. RATE DESIGN

A. Billing Adjustment Factor

Public Citizen and Sierra Club did not take a position on this issue.

B. Seasonal Power Supply Adjustment

Public Citizen and Sierra Club oppose Austin Energy's proposal to implement a Seasonal Power Supply Adjustment (PSA) charge as an alternative to summer and winter energy rates for residential customers. We are concerned that the elimination of the summer rates will decrease the signal to conserve and will reduce investment in energy efficiency measures. As Mr. Chernick stated, "if you're reducing the summer prices, you're going to be reducing the conservation incentive for the summer."⁷⁰ It is most important to send a strong signal to conserve during the summer, when Austin Energy and ERCOT experience the highest demand. While Austin Energy plans to set both the winter and summer PSA during the end of the fiscal year, Mr. Chernick pointed out that seasonal energy rates are a better tool to encourage conservation because they give the utility more control.⁷¹

The inconsistency inherent in moving the seasonal rate differential from energy rates to the PSA would reduce the incentive to conserve and would confuse customers. Variation in the price difference between winter and summer prices from year to year is often significant. 2011-2015 data shows that average electric prices for the four summer months was about 20 percent higher than winter prices. However the summer price premium ranges from almost 47 percent in 2011 to about negative 12 percent in 2014 (see Figure 1).⁷² Customers would receive

⁷⁰ Tr. Vol. 3, p. 708, l. 17-19.

⁷¹ Tr. Vol. 3, p. 720, l. 10-13.

⁷² PCSC Ex. 1, p. 12, Table 2.

significantly different price signals from year to year, making it difficult to determine the cost-effectiveness of energy efficiency investments. This variation in the summer price premium would also leave customers vulnerable to rate shock.

FIGURE 1⁷³

Table 2: Winter (October-May) and Summer (June-September) Average Load-Zone Prices, 2011-2015

Year	Summer Average Austin Energy Load Zone Price	Winter Average Austin Energy Load Zone Price	Summer Price Differential
2011	\$62.12	\$33.21	46.54%
2012	\$27.68	\$24.10	12.93%
2013	\$35.71	\$30.65	14.17%
2014	\$36.08	\$40.26	-11.59%
2015	\$27.03	\$23.50	13.06%
Average Price	\$37.72	\$30.34	19.56%

Source: Data provided by SNL and AE response to PC and SC 1st RFI (Pg. 7-11)

C. Residential

1. Customer Charge

We support the \$10 per month customer charge for residential customers in single-family homes, but those living in multifamily housing should be charged a reduced customer charge. As Mr. Lazar states in his report, “The utility cost of service for multi-family dwellings is significantly lower (on both a per-customer and a per-kilowatt-hour basis) than the cost of serving single-family residents. Multi-family dwellings have less distribution investment, better transformer utilization, and lower line losses than single-family dwellings, simply because primary-voltage power is normally delivered to the premises, rather than at remote line

⁷³ PCSC Ex. 1, p. 12.

transformers.”⁷⁴ Mr. Chernick also pointed out several similar reasons why multifamily customers are cheaper to serve than those in single-family homes.⁷⁵

Whether or not our proposal of \$6 per month for multifamily customers is the exact appropriate customer charge, some reduction in the customer charge for multifamily customers is certainly warranted. Multifamily customers have been paying more than their fair share, so even if a reduced fee is implemented now and turns out to be somewhat too low, equity would still be improved. While one could wait until a full cost-study is done on the monthly charge, in the meantime apartment dwellers are almost certainly paying too much.⁷⁶

2. Tiered Energy Rates

We oppose Austin Energy’s proposed flattening of the tiered rates for the residential customers. Austin Energy’s current residential rate design encourages conservation and keeps bills low for those who focus on conserving, including those who conserve because they have low incomes.

The NewGen Strategies & Solutions memorandum regarding 2012 Conservation Pricing Signal Impacts⁷⁷ describes the results of a study conducted for Austin Energy to evaluate the impact of the tiered rates on conservation. The study shows that the existing tiered rates are working as intended to encourage conservation. “The results of the regression analysis strongly suggest the conservation pricing signal implemented in October 2012 (beginning of FY 2013) have resulted in material and significant reductions in residential electricity consumption.”⁷⁸ The memorandum also provides evidence that customers’ conservation response to tiered rates will increase with time. NewGen stated, “Our research shows long-term (e.g. two years or more)

⁷⁴ PCSC Ex. 31, Report p. 4.

⁷⁵ Tr. Vol. 3, p. 720, l. 21 – p. 722, l. 2.

⁷⁶ Tr. Vol. 3, p. 722, l. 10-20.

⁷⁷ AELIC Ex. 1. NewGen Strategies & Solutions Memo.

⁷⁸ AELIC Ex. 1. NewGen Strategies & Solutions Memo p. 9.

elasticity of demand generally two to three times higher than the short-term elasticity of demand. This suggests AE may see further conservation due to the conservation rates and reductions in actual compared to normalized consumption levels. These levels may reach 10% to 12% or more over the next few years.”⁷⁹

Austin Energy’s proposal to flatten the rate tiers would benefit the highest energy users, and cost the lowest energy users--exactly the wrong signal for conservation.⁸⁰ The shape of the rate tiers--or the price difference between tiers--determines the strength of the signal to conserve. More steeply tiered rates send a stronger signal to conserve.⁸¹ As Mr. Chernick testified, the raising of the lower tiers and the lowering of the upper tiers “would definitely reduce the propensity to conserve.”⁸²

Subdividing the residential rate class in an attempt to recover costs consumption independently for each rate tier is inappropriate. Austin Energy’s primary stated reason for proposing to flatten the tiered residential rates is because the rate charged to the lowest tier doesn’t cover the cost of service.⁸³ There is no need to cover costs for consumption in each rate tier individually though. It is cost recovery for the residential class as a whole that matters. The utility wants to reduce any uncertainty that costs will be covered,⁸⁴ but that goal should not trump the goal to increase energy conservation. As a municipally owned utility, Austin Energy operates in a low-risk market and can afford to establish and maintain rates that support other policy goals. If a rate reduction for the residential class is available, it should be proportionally applied to all rate tiers.

⁷⁹ AELIC Ex. 1, NewGen Strategies & Solutions Memo p. 9.

⁸⁰ PCSC Ex. 1

⁸¹ Tr. Vol. 3, p. 707, l. 9-11.

⁸² Tr. Vol. 3, p. 709, l. 6-7.

⁸³ AE Ex. 1, p. 6-14.

⁸⁴ *Id.*

3. Seasonal Base Rates

We oppose Austin Energy's proposal to eliminate the summer and winter rate differential in residential energy rates. Abandoning the summer and winter energy rate differential would risk ending the pattern of increased efficiency that the existing summer tiered energy rates have created.⁸⁵ Customers would have to get used to another new rate design and the proposed alternative of a summer and winter PSC would not provide the consistent signal found in the summer and winter energy pricing. Seasonal tiered energy rates should be maintained to customers to conserve energy.

D. Non-Residential Customer Charge

Public Citizen and Sierra Club did not take a position on this issue.

E. Load Shifting Voltage Rider and Additional Demand Response and Storage Tariffs

We support Austin Energy's proposed Load Shifting Voltage Rider, but the name should be clarified and a version should be created for residential customers. The Load Shifting Voltage Rider will be an important tool to encourage commercial and industrial customers to shift peak load through the use of thermal and electric storage and would replace an existing thermal storage tariff.

The Load Shifting Voltage Rider should be renamed Energy Storage Rider to make it clear it is intended only to shift peak use through the use of storage technology and the rider should be more clearly defined and explained. Austin Energy acknowledged this suggestion and does not oppose it. Austin Energy also supported the need to clarify that the rider is intended to

⁸⁵ AELIC Ex. 1. NewGen Strategies & Solutions Memo p. 9.

shift peak use through storage technology.⁸⁶ The name change and a clearer description should be incorporated into the final tariff.

We also propose that demand response tariffs to encourage peak shifting through technologies other than energy storage be established.

Neither Austin Energy, nor any other party opposed the proposal to create additional storage or demand response tariffs. Mr. Dombroski stated that it would be difficult at this stage of the rate case to design and create these new programs, but he did support the idea of testing these tariffs through pilot programs.⁸⁷

We support the extension of the load shifting voltage rider to residential customers and the creation of additional demand response tariffs. However, an acceptable alternative would be to establish them as pilot program, with stakeholder, Electric Utility Commission (EUC), Resource Management Commission (RMC), and City Council participation.

F. S2 and S3 20% Load Factor Billing Determinant Adjustment

Public Citizen and Sierra Club did not take a position on this issue.

G. Group Religious Worship Discount

Public Citizen and Sierra Club did not take a position on this issue.

VI. VALUE OF SOLAR ISSUES

A. Commercial

The existing Value of Solar tariff should be expanded to apply to commercial customers. Our recommendation is that commercial customers with solar installations be billed for their consumption and demand, just as they would if they didn't have solar.

⁸⁶ Tr. Vol. 2, p. 617, l. 9-14.

⁸⁷ Tr. Vol. 2, p. 618, l. 2-7.

Austin Energy's current policies for treatment of commercial customers' on-site solar installations fail to provide fair compensation for value provided to the utility. While Austin Energy offers net metering to commercial customers with solar installations that are 20 kilowatts or less, commercial customers with installations larger than 20 kilowatts receive no compensation for energy that flows back to the grid.⁸⁸

Commercial installations sized at 1 megawatt or less are currently eligible for a performance-based incentive (PBI) from Austin Energy, but, as Ms. Kimberly pointed out, one should "not conflate incentives such as the PBI with something like the Value of Solar."⁸⁹ The PBI is the equivalent of the up-front rebate that residential solar customers receive. The Value of Solar tariff and net metering are tools for compensating solar customers for value provided to the utility from the energy their solar installations produce. Just as the availability of solar rebates for residential customers does not eliminate the need to compensate those customers for the value they provide, the availability of the PBI for commercial customers does not give the Austin Energy the right to deny commercial customers fair compensation.

The PBI does currently serve to dampen the effect of Austin Energy's failure to compensate commercial customers with solar for the value of the energy they provide to the utility. However, the PBI is scheduled for elimination by 2020, at the latest. If the customer sited solar goal is met prior to 2020, the PBI will be ended at that time.⁹⁰ In the meantime, "incentives – including the PBI – will be lowered as more capacity is installed between now and

⁸⁸ PCSC Ex. 17.

⁸⁹ Tr. Vol. 3, p. 926, l. 8-10.

⁹⁰ PCSC Ex. 25 "Austin Energy's solar incentive program is expected to remain in place until the earlier of 2020 or the date by when local solar goals are met." Ms. Kimberly contradicted this policy in her testimony at the hearing (Tr. Vol. 3, p. 918, l. 20 – p. 922, l. 2), but our understanding of the policy stated in the Austin Energy Resource, Generation and Climate Protection Plan to 2025 (PCSC Ex. 4, p. 5) is aligned with the written response Austin Energy provided to our request for information provided in Exhibit 25.

when the program is completed.”⁹¹ While we do not disagree with the reduction in the incentives over time, the reality is that reducing the PBI accentuates the problem caused by Austin Energy’s lack of a policy to fairly compensate commercial customers with solar installations larger than 20 kilowatts for the energy they provide to the utility. Given that the next Austin Energy rate case isn’t scheduled to take place until 2021 and the PBI is scheduled to be eliminated before that time, this issue must be addressed now.

The issue of how or if commercial customers will be compensated for energy produced by on-site solar installations should not be confused with the need to ensure that such systems don’t harm the utility’s infrastructure.

Austin Energy has existing policies and procedures to ensure that on-site solar installations will cause no harm to the utility’s infrastructure and any infrastructure upgrades needed to accommodate on-site solar installations are the responsibility of the customer. Section K on page 3 of Austin Energy’s Commercial Solar Photovoltaic Performance-Based Incentive Program Guidelines states that “all PV systems must be interconnected to Austin Energy’s electrical grid, at customer’s expense...” And, according to Austin Energy’s Distribution Interconnection Guide for Customer Owned Power Production Facilities less than 10 MW, systems over 500 kilowatts and all systems on the downtown network have an additional review process. Section 3 on page 14 states, “AE System Engineering will review and provide feedback on the proposed facility. An interconnection study may also be required to determine any mitigation procedures that may be required.”⁹²

Ms. Kimberly’s responses to our fourth request for information offer additional detail. “Austin Energy compares the size of the proposed commercial PB system to the size of the

⁹¹ PCSC Ex. 25.

⁹² PCSC Ex. 20.

transformer serving that system. If the proposed solar system is more than 50% of the size of the existing transformer to which it is being connected, further engineering review is required. In some cases, the transformer is required to be upgraded at the requesting customer's cost in order to prevent potential power quality impacts to existing local infrastructure."⁹³ "The customer submits an Electric Service Planning Application to AE's Distribution Design group in order to estimate the cost to upgrade or mitigate any affected infrastructure. This estimate is then presented to the customer proposing the solar installation. If they choose to proceed, the proposer must upgrade or mitigate any issues at their cost before they will be allowed to interconnect."⁹⁴ As we heard from Ms. Kimberly, these policies have nothing to do with any possible change to how commercial customers are compensated for energy produced from on-site solar installations.⁹⁵

The Value of Solar tariff was specifically designed to be independent of the rates and fees that customers are charged for electric consumption. The formula used to calculate the Value of Solar rate in no way incorporates consumption rates or fees.⁹⁶ The Value of Solar tariff components are fuel value, plant operations and maintenance value, generation capacity value, transmission and distribution capacity value, and environmental compliance value.⁹⁷

There is no need to develop a new Value of Solar formula for commercial installations. Production from commercial customers' on-site solar installations is already incorporated into the calculation of the Value of Solar rate. According to Austin Energy, "The local solar production profile use in the Value of Solar analysis is based on the simulation of all the systems

⁹³ PCSC Ex. 23, p. 3.

⁹⁴ PCSC Ex. 23, p. 4.

⁹⁵ Tr. Vol. 3, p. 909, l. 16-25., Tr. Vol. 3, p. 910, l. 1-2.

⁹⁶ Jim Rourke Ex. 3.

⁹⁷ PCSC Ex. 19, p. 6.

installed in Austin Energy's territory as of 2013, including residential, commercial and municipal installations, but not the Webberville solar project."⁹⁸

B. Community Solar

Public Citizen and Sierra Club support the establishment of a Value of Community Solar tariff as a tool to compensate community solar subscribers. Austin Energy has contracted with Power Finn Partners to construct and operate a 2 MW solar installation at the Kingsbery Substation in east Austin. The installation is scheduled for completion by the end of 2016 and Austin Energy plans to begin offering subscriptions to the program beginning in October.⁹⁹ Ms. Kimberly testified that Austin Energy plans to take the program design to Council for approval by the start of September, at the latest.¹⁰⁰

While Austin Energy has not made a final decision about how to structure the community solar program, one idea that is being considered is for customers to pay up-front or monthly subscription fees for capacity at the community solar installation and be compensated for production from that capacity based on a Value of Community Solar tariff.¹⁰¹ We support this idea.

Whenever possible, rates and tariffs should be set as part of a rate case, as opposed to on an ad hoc basis. Establishing the Value of Community Solar tariff as part of this rate case will ensure transparency and provide opportunities for meaningful public input. Setting the Value of Community Solar tariff ahead well ahead of program roll-out will aid in program success by allowing Austin Energy staff time to respond to any concerns.

⁹⁸ PCSC Ex. 24.

⁹⁹ PCSC Ex. 26, p. 3, 7.

¹⁰⁰ Tr. Vol. 3, p. 930, l. 4-18.

¹⁰¹ PCSC Ex. 26, p. 8.

C. VOS Residential Tariff

Public Citizen and Sierra Club support maintaining the existing Value of Solar tariff for residential customers.

VII. POLICY ISSUES

A. Funding Discounts

Public Citizen and Sierra Club did not take a position on this issue.

B. Rates for Customers Inside and Outside the City Limits of Austin

Public Citizen and Sierra Club propose that the residential rate structure for inside and outside customers should be similar. We maintain that the present three-tiered rate structure for outside the city limits provides less incentive to conserve than the five-tier rate structure.

If the IHE, AE and City Council determine that a slight discount should be provided to outside the city limits of Austin customers-such as that contained in the settlement -- that does not mean the rate structure must be fundamentally different. The current tariff for outside the city customers, as well as the proposed tariff only contain three blocks, with the highest block at 1500 kilowatt hours.

As Mr. Paul Chernick stated regarding the rate design for outside city customers:

“They do have an incentive to conserve, because they're being charged for their electricity, and that would be true even if you had flat rates with no inclining block; you still would be charging them for something. The question is whether you're giving them a better price signal with a rate structure that's truncated, that does not rise, the price doesn't rise after the third block. And there I think the answer is, the signals outside the city are weaker than inside the city.”¹⁰²

C. Piecemeal Ratemaking

Public Citizen and Sierra Club did not take a position on this issue.

¹⁰² Tr. Vol. 3, p. 710, ll. 19-25 and p. 711, ll. 1-3.

D. Service Area Lighting

Public Citizen and Sierra Club did not take a position on this issue.

E. Power Production Costs and Rate Treatment

Public Citizen and Sierra Club did not take a position on this issue.

F. Studies Supporting Future Cost of Service

Based on the evidence presented and referenced previously, Public Citizen and Sierra Club support a study to evaluate a reduced customer charge for multifamily residents. It is very likely that multifamily residents cost the utility less to serve and should therefore be charged a reduced fixed customer fee.

We oppose studies focused on customers with on-site solar installations because Austin Energy already has a well-designed method for ensuring that residential solar customers are both compensated for the value they provide and are paying their fair share of costs. That is precisely the purpose of the Value of Solar tariff, which is based on studies done by Austin Energy and its consultants. At this point, additional studies are not needed on this topic and would be a waste of money.

Before any changes are made to reduce the steepness of the tiered residential rates, a study should be done to examine the impact on energy conservation and low-income customers. The study already done by Austin Energy shows that the steep five-tier residential rate design has helped lower overall energy and peak use among the residential class.¹⁰³

Studying the cost of service between serving inside city versus outside city customers is also needed and will help determine to what extent different rate design and structures should be implemented.

G. Customer Assistance Program

¹⁰³ AELIC Ex. 1

Public Citizen and Sierra Club did not take a position on this issue.

H. Customer Satisfaction

Public Citizen and Sierra Club did not take a position on this issue.

I. Pilot Programs

We believe that Austin Energy should have the flexibility to design, evaluate and test pilot programs. Nonetheless, we recognize the concerns raised by AELIC and the ICA, particularly over the pre-pay programs, and agree that clear timelines with an end date, a public participation process including stakeholder engagement, Electric Utility Commission and Resource Management Commission consultation, and City Council input should be required for the development of any pilot project, and to the extent a pilot program will become permanent, even more input and public process should be required. Thus we are in support of the ICA recommendations on this issue.

To the extent that any of our recommendations on additional riders and tariffs are not adopted, we urge the IHE to recommend, and City Council and AE develop, pilot programs to “test” new tariffs related to demand response and storage technologies.

J. Pick Your Own Due Date

Public Citizen and Sierra Club did not take a position on this issue.

VIII. STATEMENT OF POSITION / OTHER ISSUES

A. Late Payment Fees

Public Citizen and Sierra Club did not take a position on this issue.

B. Regulatory Charge

Public Citizen and Sierra Club did not take a position on this issue.

IX. CONCLUSION

For the reasons stated herein and in the testimonies of our witnesses, Public Citizen and Sierra Club respectfully request that the Independent Hearing Examiner adopt our recommendations and incorporate them into the Proposal for Decision to the City Council.

Copies of this Closing Brief are being served on parties listed on the City Clerk's service list as of the date of this filing.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carol S. Birch".

Carol S Birch
Texas Bar No. 02328375
Attorney for Public Citizen and Sierra Club

Submitted: June 10, 2016